

# SUMMARY ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Honda Analyst: Marion Mann DeJong Bill Number: AB 2360

Related Bills: See Prior Analysis Telephone: 845-6979 Amended Date: 05/18/2000

Attorney: Patrick Kusiak Sponsor:

**SUBJECT:** Renter Credit/Teachers & Safety Officers/FTB Report to Legislature  
Annually Regarding Number and Value of Credits Claimed

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

X FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED April 3, 2000, STILL APPLIES.

OTHER - See comments below.

### SUMMARY OF BILL

This bill would create an additional \$500 renter's credit for specified teachers and public safety officers.

### SUMMARY OF AMENDMENT

The May 18, 2000, amendments made the following changes:

- modified the definition of "public safety officer";
- limited the credit to qualified renter's who rent within a "high-rent area";
- defined "high-rent area";
- applied the adjusted gross income (AGI) limit to filing status rather than marital status;
- added a provision allowing the Franchise Tax Board (FTB) to prescribe regulations; and
- added a repeal date.

These amendments partially resolved issues raised in the department's analysis of the bill as amended April 25, 2000, and raise new concerns.

The "Legislative History/Background" and current law discussion in "Specific Findings" from the department's analysis of the bill as amended April 3, 2000, still apply. The remainder of that analysis and the analysis of the bill as amended April 25, 2000, are replaced with the following.

### Board Position:

<u>      </u> S	<u>      </u> NA	<u>      </u> NP
<u>      </u> SA	<u>      </u> O	<u>      </u> NAR
<u>      </u> N	<u>      </u> OUA	<u>  X  </u> PENDING

### Legislative Director

### Date

Johnnie Lou Rosas

6/6/00

EFFECTIVE DATE

As a tax levy, this bill would become effective immediately upon enactment and would apply to taxable years beginning on or after January 1, 2000. The credit would be repealed on December 1, 2006.

SPECIFIC FINDINGS

**This bill** would create a \$500 renter's credit for "qualified renters." This credit would be allowed in addition to the renter's credit allowed under current law.

**This bill** would define a "qualified renter" as an individual who is either an entry-level teacher for students in grades kindergarten to 12, inclusive, or an entry-level public safety officer who is currently working in California in that profession, and who:

- is a California resident, and
- rented and occupied premises that were used to provide living accommodations and is located within a high-rent area.

A "high-rent area" would be a county within a metropolitan statistical area whose fair market rents are above the average fair market rent for all metropolitan areas within the state. The U.S. Department of Housing and Urban Development determines fair market rents by evaluating rental vacancies and cost in designated areas. The bill would specify that the following counties are "high rent areas" for taxable year 2001:

Alameda, Contra Costa, Los Angeles, Marin, Napa, Orange, San Diego, San Francisco, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Solano, Sonoma, and Ventura.

"Public safety officer" would mean any rank and file state or local law enforcement officer, including any sheriff officer, police officer or firefighter. Public safety officer would also be defined in Section 830 of the Penal Code.

"Entry-level" would mean a person who has been in a profession for four years or less.

**This bill** would limit the credit to taxpayers with AGI not in excess of \$200,000 for persons filing joint returns or heads of household or \$100,000 for other individuals. The AGI amounts would be indexed annually beginning in 2001.

Policy Considerations

This bill would allow an individual to claim both the existing renter's credit and the teacher/public safety officer renter's credit created by this bill.

### Implementation Considerations

This bill would raise the following implementation considerations. Department staff will work with the author to resolve these issues as the bill moves through the legislature.

- The phrase "currently working in that profession" is unclear. Does this mean working in the profession at the end of the tax year? It is unclear whether the author intended the credit to be allowed for any portion of the year that the individual was not employed as a teacher or public safety officer. Further, the definition of "entry-level" is unclear. The four-year timeframe could be measured from the first job as a teacher or public safety officer. For teachers, the four years could begin from the date on the teaching credential. Undefined and unclear terms and phrases can lead to disputes between taxpayers and the department.
- The term "public safety officer" is defined in two places (paragraphs (3) and (4) of subdivision (b) making the definition unclear if not internally inconsistent. For example, the referenced section of the Penal Code (Section 830) addresses the term "peace officer" as defined in various provisions of Chapter 4.5 of the Penal Code. However, the term "peace officer" does not include "firefighter" except those firefighters involved in arson investigation and similar types of law enforcement activities.
- The credit is limited to premises rented and occupied in "high-rent" areas. The bill specifies those areas for taxable year 2001, but does not specify the areas for other taxable years. It may be difficult for taxpayers and the department to determine whether the rental is within a "high-rent area" for taxable year 2000 and other years covered by the credit.

Further, the bill specifies that the California Department of Housing and Community Development shall review criteria related to the "high-rent areas" biannually, but does not specify what should be done once the criteria is reviewed. Would the "high-rent areas" change?

- It may be difficult for department staff to verify that the taxpayer is an "entry-level" teacher or public safety officer. Perhaps the employer could provide verification to the taxpayer. The verification could be provided by the taxpayer to the department upon request.
- This bill would allow the department to prescribe regulations necessary to verify an individual's resident status and length of employment. It may be more appropriate to establish those verification methods in the statute rather than through regulations. Further, since regulations take time to establish and this bill would be operative for taxable years beginning on or after January 1, 2000, regulations likely could not be ready for the 2000 taxable year.

- This bill would limit the credit based on AGI amounts for specified filing statuses: \$200,000 for married filing joint and heads of household; \$100,000 for all others. Under the current law for renter's credit, the higher AGI limitation is also provided to surviving spouses.
- It is unclear whether the author intends to index the credit amount or the AGI limitation for inflation. Under the current law for renter's credit, the AGI limitation is indexed for inflation, not the credit amount. If the author intends to index only the AGI limitation, all references to subdivision (a) within the indexing provisions (subdivision (h)) should be changed to subdivision (e).

#### Technical Considerations

This bill would raise the following technical considerations. Department staff will work with the author to resolve these issues as the bill moves through the legislature.

- This bill provides a definition for "public safety officer" in paragraph (3) of subdivision (b) and then modifies the definition in paragraph (4) of subdivision (b). The entire definition should be in paragraph (3).
- Subdivision (b) provides definitions for most of the bill's terms. However, the definition of "high-rent area" is provided in subdivision (c). The definition of "high-rent area" should be moved to subdivision (b).

#### REGULATIONS

This bill would provide FTB with authority to prescribe regulations necessary to carry out this credit, including regulations necessary to verify an individual's resident status and length of employment.

#### LEGISLATIVELY MANDATED REPORTS

This bill would require FTB to report annually to the Legislature regarding the number and value of the credits claimed.

#### FISCAL IMPACT

##### Departmental Costs

If the bill were amended to resolve the implementation considerations identified, implementation of this bill would not significantly impact the department's costs.

### Tax Revenue Estimate

Based on the data and assumptions below, revenue losses are estimated as follows:

Revenue Impact of AB 2360		
Amended May 18, 2000		
For Taxable Years Beginning 1/1/2000		
Assumed Enactment After 6/30/00		
(In Millions)		
2000-01	2001-2	2002-3
-\$12	-\$12	-\$13

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

### Tax Revenue Discussion

The impact of this bill would depend upon the number of individuals claiming the credit and the average credit applied against tax liabilities.

The estimated revenue losses were determined in the following steps:

First, the total number of individuals qualifying for the credit was based on information from the 1996 and 1999 U.S Statistical Abstract and the 1997 California Statistical Abstract. According to these sources, it is estimated that 52,000 entry-level teachers and 82,000 entry-level public safety officers, as defined by this bill, would be employed in California in the year 2000, for a combined total of 134,000. Based on overall population by county, it is estimated that approximately 70% (94,000 individuals) reside in the qualifying counties. This number was adjusted by 10% to account for attrition ( $94,000 \times 1.1 = 103,000$ ).

The next step was to determine the number of qualified renters. According to the 1994 County and City Data Book, a statistical abstract supplement, approximately 47% of individuals living within the specified counties rent. Assumptions were made that the distribution of entry-level teachers and public safety officers who rent would not be materially different than the counties as a whole (47%). This yields approximately 48,000 qualified renters ( $103,000 \times 47\%$ ).

The last step was to determine how many of the qualified renters would have a tax liability and the amount of the average applied credit. Based on information from the department's personal income tax model, it is estimated that 67% of qualified renters ( $48,000 \times 67\% = 32,000$ ) would have a tax liability, with an average applied credit of approximately \$365.

Thus, 32,000 taxpayers would qualify for an average applied credit of \$365. The revenue loss would be \$12 million in tax year 2000.

### BOARD POSITION

Pending.